



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-96361; File No. SR-NYSE-2022-53]

### **Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Its Price List**

November 18, 2022.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 14, 2022, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to amend its Price List to introduce monthly quoting incentives for Designated Market Makers (“DMM”) in assigned Exchange Traded Products (“ETP”) for the first 12 months following listing on the Exchange. The Exchange proposes to implement the fee changes effective November 14, 2022. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

#### **II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes monthly quoting incentives for DMMs in assigned ETPs for the first 12 months following listing on the Exchange while that ETP is listed on the Exchange.

The proposed change responds to the current competitive environment where order flow providers have a choice of where to direct orders by offering incentives to DMMs to quote and trade at the national best bid or offer ("NBBO")<sup>3</sup> in assigned ETPs during the first 12 months following the ETP's listing on the Exchange. The Exchange also hopes thereby to encourage additional ETPs to list and trade on the Exchange.

The Exchange proposes to implement the fee changes effective November 14, 2022.

Background

Current Market and Competitive Environment

The Exchange operates in a highly competitive market. The Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system "has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies."<sup>4</sup>

As the Commission itself has recognized, the market for trading services in NMS stocks

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<sup>3</sup> See Rule 1.1(r) (definition of NBBO, Best Protected Bid, Best Protected Offer, Protected Best Bid and Offer (PBBO)).

<sup>4</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (S7-10-04) (Final Rule) ("Regulation NMS").

has become “more fragmented and competitive.”<sup>5</sup> Indeed, equity trading is currently dispersed across 16 exchanges,<sup>6</sup> 31 alternative trading systems,<sup>7</sup> and numerous broker-dealer internalizers and wholesalers. Based on publicly-available information, no single exchange has more than 20% of the market.<sup>8</sup> Therefore, no exchange possesses significant pricing power in the execution of equity order flow. More specifically, the Exchange’s share of executed volume of equity trades in Tapes A, B and C securities is less than 12%.<sup>9</sup>

The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can move order flow, or discontinue or reduce use of certain categories of products, in response to fee changes. With respect to non-marketable order flow that would provide displayed liquidity on an Exchange, member organizations can choose from any one of the 16 currently operating registered exchanges to route such order flow. Accordingly, competitive forces constrain exchange transaction fees that relate to orders that would provide liquidity on an exchange.

In response to the competitive environment described above, the Exchange proposes monthly credits for DMMs that meet certain quoting requirements in assigned ETPs during the first 12 months following the assigned ETP’s listing on the Exchange while that ETP is listed on the Exchange.

#### Proposed Rule Change

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<sup>5</sup> See Securities Exchange Act Release No. 51808, 84FR 5202, 5253 (February 20, 2019) (File No. S7-05-18) (Transaction Fee Pilot for NMS Stocks Final Rule) (“Transaction Fee Pilot”).

<sup>6</sup> See Cboe Global Markets, U.S. Equities Market Volume Summary, available at [http://markets.cboe.com/us/equities/market\\_share/](http://markets.cboe.com/us/equities/market_share/). See generally <https://www.sec.gov/fast-answers/divisionsmarketregmrexchangesshtml.html>.

<sup>7</sup> See FINRA ATS Transparency Data, available at <https://otctransparency.finra.org/otctransparency/AtsIssueData>. A list of alternative trading systems registered with the Commission is *available at* <https://www.sec.gov/foia/docs/atlist.htm>.

<sup>8</sup> See Cboe Global Markets U.S. Equities Market Volume Summary, available at [http://markets.cboe.com/us/equities/market\\_share/](http://markets.cboe.com/us/equities/market_share/).

<sup>9</sup> See *id.*

In order to encourage quoting on the Exchange in listed ETPs, the Exchange proposes to offer monthly quoting credits to DMMs in assigned ETPs. Specifically, the Exchange proposes that DMMs quoting 30% or more of the time in a billing month in an ETP assigned to that DMM on the last day of that billing month would be eligible for a credit of \$4,000 per assigned ETP for that billing month. DMMs quoting less than 30% of the time in a billing month in an ETP assigned to that DMM on the last day of that billing month would be eligible for a credit of \$2,000 per assigned ETP for that billing month. As proposed, DMMs would be eligible for the credits for the first 12 months following the listing of the ETP on the Exchange while that ETP is listed on the Exchange.

For example, ETP 1 lists on the Exchange and is assigned to DMM A in November 2022. ETP 2 lists on the Exchange and is assigned to DMM A in December 2022. Further assume that in November and December 2022, DMM A quotes at the NBBO 40% of the time for ETP 1 and at 20% of the time for ETP 2. Based on this quoting activity, DMM A would be eligible for the following credits for those billing months:

- a \$4,000 credit for ETP 1 in November 2022;
- a \$4,000 credit for ETP 1 in December 2022; and
- a \$2,000 credit for ETP 2 in December 2022, for a combined \$6,000 credit in December 2022.

If DMM A improves their quoting in ETP 2 in January 2023 and quotes at the NBBO 40% of the time in that billing month, DMM A's combined credit for January 2023 for both ETPs would increase to \$8,000.

If DMM A quotes at the NBBO 40% of the time in both ETP 1 and ETP 2 in November 2023, DMM A would receive a \$4,000 credit for ETP 2 and no credit for ETP 1 since November 2023 would be ETP's 13<sup>th</sup> month listed on the Exchange.

The purpose of the proposed change is to encourage higher quoting levels by DMMs on the Exchange in a listed ETP's first 12 months following listing, which would support the quality

of price discovery on the Exchange and is consistent with the overall goals of enhancing market quality. As noted above, the Exchange operates in a competitive environment, and member organizations have a choice of where to send order flow. Because the proposal permits DMMs to receive a monthly credit if the DMM quotes a certain percentage at the NBBO on the Exchange during the first 12 months following an ETP's listing while the ETP is listed, the Exchange believes that the proposed credits would provide incentives for DMMs to quote more aggressively on the Exchange in their listed ETPs in order to qualify for it. The Exchange believes that incentivizing DMMs on the Exchange to add liquidity at the NBBO to meet the higher quote levels could contribute to price discovery and improve quoting on the Exchange. In addition, additional liquidity providing quotes benefit all market participants because they provide greater execution opportunities on the Exchange and improve the public quotation, which benefits all member organizations.

The proposed change is not otherwise intended to address other issues, and the Exchange is not aware of any significant problems that market participants would have in complying with the proposed changes.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,<sup>11</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

### The Proposed Change is Reasonable

As discussed above, the Exchange operates in a highly competitive market. The Commission has repeatedly expressed its preference for competition over regulatory intervention

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(4) & (5).

in determining prices, products, and services in the securities markets. In Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>12</sup> While Regulation NMS has enhanced competition, it has also fostered a “fragmented” market structure where trading in a single stock can occur across multiple trading centers. When multiple trading centers compete for order flow in the same stock, the Commission has recognized that “such competition can lead to the fragmentation of order flow in that stock.”<sup>13</sup>

The new proposed incentives are reasonable. Specifically, the Exchange believes that a new DMM credits would provide an incentive for DMMs to increase liquidity-providing orders at the NBBO on the Exchange during the first year following the listing of an ETP. The proposed credits are thus intended to encourage higher levels of liquidity and quoting by DMMs on the Exchange in listed ETPs, which would support the quality of price discovery on the Exchange and is consistent with the overall goals of enhancing market quality. To the extent that the proposed change leads to an increase in overall liquidity activity and quoting on the Exchange and more competitive pricing, this will improve the quality of the Exchange’s market, improve quote spreads and increase its attractiveness to existing and prospective participants. The proposed incentives will also support new ETPs listing on the Exchange by incentivizing DMMs to quote at the NBBO more often.

As noted above, the Exchange operates in a competitive environment, and member organizations have a choice of where to send order flow. Because the proposed credits require DMMs to meet certain quoting requirements at the NBBO in order to qualify for the credits, the

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<sup>12</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37495, 37499 (June 29, 2005) (S7-10-04) (Final Rule) (“Regulation NMS”).

<sup>13</sup> See Securities Exchange Act Release No. 61358, 75 FR 3594, 3597 (January 21, 2010) (File No. S7-02-10) (Concept Release on Equity Market Structure).

Exchange believes that the proposed credit would provide an incentive for all DMMs to quote aggressively on the Exchange in order to qualify for the base credit and more aggressively in order to qualify for the higher credit. The Exchange believes that incentivizing DMMs on the Exchange to add liquidity to meet the higher quote levels at the NBBO could contribute to price discovery and improve quoting on the Exchange. In addition, additional liquidity providing quotes benefit all market participants because they provide greater execution opportunities on the Exchange and improve the public quotation.

#### The Proposal is an Equitable Allocation of Fees

The Exchange believes that the proposed credits are an equitable allocation of fees because the proposed credits would be available to all DMMs on an equal basis. The Exchange believes that the proposal will allocate the proposed credits fairly among DMMs and allow DMMs to qualify for a credit by adding liquidity and improving quoting at the NBBO during the first 12 months following an ETP's listing on the Exchange. The Exchange believes the proposed rule change would improve market quality by providing incentives for all DMMs to increase aggressively priced liquidity-providing orders at the NBBO on the Exchange, thereby encouraging higher levels of liquidity by DMMs on the Exchange, which would support the quality of price discovery on the Exchange and is consistent with the overall goals of enhancing market quality.

#### The Proposal is Not Unfairly Discriminatory

The Exchange believes it is not unfairly discriminatory to provide credits for adding liquidity that encourage DMMs on the Exchange to quote at the NBBO as the proposed credits would be provided on an equal basis to all similarly situated DMMs that add liquidity in assigned ETPs during the first year following listing and by meeting the proposed quoting requirements. For the same reason, the Exchange believes it is not unfairly discriminatory to provide a higher credit for increased quoting at the NBBO at or above 30% because the proposed higher credit would equally encourage all DMMs to provide additional liquidity on the Exchange. As noted,

the Exchange intends for the proposal to improve market quality for all members on the Exchange in listed ETPs and by extension attract more liquidity to the market, thereby encouraging higher levels of liquidity by DMMs on the Exchange in listed ETPs, which would support the quality of price discovery on the Exchange and is consistent with the overall goals of enhancing market quality.

For the foregoing reasons, the Exchange believes that the proposal is consistent with the Act.

B. Self-Regulatory Organization's Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act,<sup>14</sup> the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, as discussed above, the Exchange believes that the proposed changes would encourage the submission of additional liquidity to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities for member organizations. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering integrated competition among orders, which promotes "more efficient pricing of individual stocks for all types of orders, large and small."<sup>15</sup>

*Intramarket Competition.* The proposed changes are designed to incentivize market participants to direct displayed order flow to the Exchange. Greater liquidity benefits all market participants on the Exchange by providing more trading opportunities and encourages member organizations to send orders, thereby contributing to robust levels of liquidity, which benefits all market participants on the Exchange. The proposed credits would be available to all similarly-situated market participants, and, as such, the proposed change would not impose a disparate burden on competition among market participants on the Exchange. As noted, the proposal

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<sup>14</sup> 15 U.S.C. 78f(b)(8).

<sup>15</sup> Regulation NMS, 70 FR at 37498-99.



would apply to all similarly situated member organizations on the same and equal terms, who would benefit from the change on the same basis. Accordingly, the proposed change would not impose a disparate burden on competition among market participants on the Exchange.

*Intermarket Competition.* The Exchange operates in a highly competitive market in which market participants can readily choose to send their orders to other exchange and off-exchange venues if they deem fee levels at those other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and rebates to remain competitive with other exchanges and with off-exchange venues. Because competitors are free to modify their own fees and credits in response, and because market participants may readily adjust their order routing practices, the Exchange does not believe its proposed fee change can impose any burden on intermarket competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>16</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>17</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>18</sup> of the Act to determine

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 17 CFR 240.19b-4(f)(2).

<sup>18</sup> 15 U.S.C. 78s(b)(2)(B).

whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2022-53 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR- NYSE-2022-53. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR- NYSE-2022-53 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>19</sup> 17 CFR 200.30-3(a)(12).